

Idaho Public Utilities Commission

Case No. SPL-W-13-01, Order No. 32904

October 17, 2013

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New rates effective Nov. 1 for Spirit Lake East Water customers

Monthly rates for the approximate 300 households served by Spirit Lake East Water Company will increase from an average \$25.10 to \$51.18 effective Nov. 1. The water utility serves Spirit Lake in Kootenai County and Treeport, a private aviation community in Bonner County.

Most of the increase is attributable to system improvements required to update the aging water system and comply with a state Department of Environmental Quality Consent Order.

“While the commission acknowledges the many objections by customers to a general rate increase, we cannot simply deny a utility’s request for an increase in rates without justification supported by substantial evidence for doing so,” said the Idaho Public Utilities Commission in its order approving the rate increase.

There has not been a significant increase for Spirit Lake East Water customers in 30 years. The commission did approve an approximate 50-cent per month increase in 2007. Since then, Spirit Lake East has completed nearly \$300,000 in upgrades and repairs to increase water pressure, provide back-up power generation and improve leaks to the main line.

The commission and its staff conducted a six-month investigation into the company’s rate increase application, which included an audit and an on-site inspection of the company’s facilities and infrastructure. Commission staff also conducted a customer workshop and commissioners conducted a public hearing. The commission also took written comments from customers.

The commission noted that Spirit Lake East is legally entitled to rates that cover its operating costs and provide an opportunity to earn a reasonable return on its investment. The commission staff verified that, under current rates, the company was operating at an annual net loss of \$21,630. It is in the “best interest of all customers” that Spirit Lake is able to attain a reasonable return and “remain a financially and operationally sound utility. The overall financial and operational integrity of a utility increases reliability of service and helps to lower the company’s borrowing costs,” the commission said.

The company sought an annual revenue requirement of \$150,414. The commission approved \$140,105. The commission adopted a 12 percent Return on Equity and an 11.42 percent overall rate of return, which is consistent for small water companies comparable to Spirit Lake East. The revenue requirement and return allowed Spirit Lake East does not constitute a guarantee it will attain that level of earnings, only that it is permitted to do so.

Under the new rate structure, all customers will pay a monthly minimum of \$25.55. They will also pay a commodity charge of \$2.33 for every 1,000 gallons used above 8,000 gallons a month. Currently, customers are paying \$12.50 per month and \$1.20 for every 1000 gallons above 9,000 gallons per month. To encourage conservation, commission staff recommended the commodity charge kick-in when customers reach 6,000 gallons per month. But the commission said that may cause too dramatic an increase for many customers. "We believe that water conservation habits can and should be given an opportunity to develop over time," the commission said. The average use for customers is about 6,000 gallons per month during winter months and 30,000 gallons during summer.

"By lowering the monthly volume allowance by 1,000 gallons, (from the current 9,000 gallons) the commission strikes a reasonable balance between encouraging conservation, not overly burdening low-volume users, and minimizing the potential for rate shock among high-volume users," the commission said.

The commission also granted the company's request to switch from quarterly billing to monthly billing. That will allow the company to more quickly detect excessive usage due to leaks, which has been an ongoing problem for Spirit Lake East's water system. While a monthly billing system will increase costs by about \$1,225 per year, commission staff determined that leaks cost the company about \$3,125 per year. A monthly billing schedule, the commission said, "will be more economical over time."

The commission also directed the company to discontinue its business relationship with Water Works, Inc. and continue with its plan to hire its own employees by no later than November. That directive addresses a potential conflict of interest for Spirit Lake East's owner, who is also an officer for Water Works, Inc. The company must also obtain a new insurance policy and provide the commission with a detailed study regarding the addition of fire hydrants within six months.

The commission's order and other documents related to the case are found on the commission's Web site at www.puc.idaho.gov. Click on "Open Cases," under the Water heading and scroll down to Case No. SPL-W-13-01.

Interested parties may petition the commission for reconsideration by no later than Nov. 1. Petitions for reconsideration must set forth specifically why the petitioner contends that the order is unreasonable, unlawful or erroneous. Petitions should include a statement of the nature and quantity of evidence the petitioner will offer if reconsideration is granted.

Petitions can be delivered to the commission at 472 W. Washington St. in Boise, mailed to P.O. Box 83720, Boise, ID, 83720-0074, or faxed to 208-334-3762.

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